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SUBJECT: Exporting Labor as a Development Strategy?

REF: A) Manila 2524 B) Manila 4959 C) Manila 1135

11. Summary: Though no one in the Philippines is talking about exporting labor as a development strategy, this is effectively what the country is doing. Foreign remittances are the most dynamic sector of the Philippine economy, and have been for some years now. The key accomplishment of the recent "Free Trade Agreement" with Japan seems to have been permission for entry of 1,000 Filipino health workers. However, education is the required cornerstone of such a strategy. As qualified airline pilots, engineers, mechanics, nurses, doctors, and teachers leave the Philippines for lucrative jobs abroad, it is crucial that a broadened, high-quality education system provide new, well-trained workers to take up their positions in the Philippines. So far, that is not happening. End Summary.

12. The \$11.5 billion sent back to the Philippines by overseas Filipinos through the commercial banking system in the first eleven months of 2006 makes overseas employment as a whole the fourth largest sector of the Philippine economy. It is also the fastest growing, averaging real growth of 16% per year for the past four years. The Commission on Filipinos Overseas estimates that there are about 3.4 million Filipino immigrants or permanent residents abroad, 3.7 million temporary contract workers, and another 0.9 million Filipinos who are living overseas without valid residence or work permits. Altogether, there are about 8 million Filipinos living and working abroad who are remitting money to the Philippines.

13. In the past, overseas Filipino workers (OFWs) were low-paid service providers and unskilled workers, mainly household helpers and construction workers. Overseas employment has changed dramatically in recent years, however. Professional and technical workers comprise almost 38% of OFWs, up from 31% in 2000. Production workers are now 22% of the overseas workforce, down from almost 37% in 2000. The demand for OFW employment is at an all-time high. From January to November 2006, more than one million workers left the country, an increase of almost 13% from last year.

Critical Shortages in the Airline Industry

14. The Philippine Air Force reports that 54 pilots, five percent of its pilot corps, resigned in 2006 to pursue work as commercial pilots. Air Force pilots, attracted by higher pay and better benefits are mostly leaving to work for the national carrier Philippine Airlines (PAL), which offers senior pilots \$4,000-\$7,000 per month including benefits and productivity pay. Other local carriers offer pilots only \$2,000 to \$3,000 per month. However, foreign commercial airlines are offering experienced pilots up to \$12,000 per month. As a result of the pay disparity, more than 120 pilots out of the 700 qualified to serve as captains, have left the

Philippines for overseas jobs since 2000. The problem extends beyond pilots, though. Over the past six years half of the 3,000 Filipino aircraft mechanics have left the country.

15. According to PAL, the exodus of pilots and flight engineers may hurt the company's planned expansion. PAL has increased employee salaries by 40% and improved fringe benefits, but experienced pilots are still leaving and PAL has had to discontinue certain flights as a result (Ref A). PAL may have to revise its plans to add destinations outside the region, including the U.S. (Ref B).

16. Low-cost Asian carriers are fueling the increased demand for pilots. Demand from carriers in China and India is expected to continue growing. The demand for experienced Filipino pilots will increase even more following an International Civil Aviation Organization requirement that all international pilots, radio operators, and air traffic controllers pass English proficiency examinations by 2008. In a doomed attempt to retain qualified pilots, the Philippine Overseas Employment Administration (POEA) now requires that pilots and aircraft mechanics give employers six months advance notice before leaving to work abroad. The airline industry is lobbying heavily for more dramatic action, a 3- to 5-year ban on foreign contracting of these professionals.

The Doctor is Out: Shortages in Healthcare

17. Since 1994, over 100,000 nurses have left the Philippines to work abroad, about 50,000 in the last five years. Because of this outflow of nurses, many government-funded rural hospitals have severely reduced midwife services. The driving force in the nursing exodus is salary disparity. Doctors in public hospitals are paid up to \$800 per month while nurses receive up to \$115 per month. By

MANILA 00000193 002 OF 003

contrast, overseas salaries for nurses can exceed \$5000 per month. As a result, the number of Filipino doctors seeking overseas work as nurses is also rapidly increasing (Ref C).

18. To address the pay disparity, the government recently submitted a bill to Congress that would raise the pay scale for government doctors and nurses. The government is also attempting to slow down the exodus of doctors, as the Commission on Higher Education now requires licensed physicians to enroll in at least two years of nursing education before earning a nursing diploma to work overseas. The Department of Health has asked the Department of Labor to classify health care workers as "mission critical" in order to restrain the exodus, but this has not yet been done. Hospitals have become de facto on-the-job training facilities, as newly-hired nurses stay only two to three years to develop proficiency before going overseas. The international market for Filipino healthcare workers continues to increase, as Japan is poised to allow the entry of up to 1,000 nurses and caregivers for the first time under the Japan-Philippines Economic Partnership Agreement.

19. Skyrocketing enrollment due to increasing overseas work opportunities has encouraged the proliferation of nursing schools. Over the past five years the number of nursing schools has increased from 170 to 470. During the 1998-1999 school year, 27,000 students were enrolled in nursing school, whereas 292,000 students were enrolled in nursing school during 2004-2005. The quality of education provided by some of these schools is of concern, as less than 52% of examinees have passed the Nursing Licensure Exam since 2002. Results of the June 2006 exam were in doubt amid allegations that test questions were leaked. After weeks of uncertainty, and apparently under heavy political pressure, the Philippine Regulatory Commission ultimately allowed the 17,000 passers to become licensed. Whether or not these nurses will qualify for U.S. work visas is still unclear. The Commission on Graduates of Foreign Nursing Schools, a U.S. nonprofit organization that verifies credentials of foreign nurses, is assessing whether these nurses are eligible for certification, a necessary prerequisite for a U.S. employment visa.

Future Labor Shortages in Mining and Education

¶10. Metal price collapses caused a lull in the mining industry in the 1990s, and during this time geologists and mining engineers re-specialized or pursued employment overseas. With prices back up and foreign investment in the sector newly liberalized, the Philippines is seeing increased foreign interest in its world-class and under-developed mineral deposits. Currently 875 mining engineers are working in the Philippines. However, many are approaching retirement and only nine mining engineers have been licensed by the Philippine Regulatory Commission this year. As a result, the mining industry is facing a potential shortage in the face of anticipated job increases as the sector picks up international investment.

¶11. Many of the best qualified and experienced teachers are leaving to teach abroad, particularly those specialized in math and science.

Salaries of teachers in urban areas currently average \$3,000 per year while salaries offered by U.S. recruiters average \$36,000 per year. The number of teachers being recruited was steady during the 1990s, averaging 132. Since 2000, the number of teachers leaving has increased, averaging 455 per year since 2000. Many teachers are also leaving to work as nurses and domestic helpers. Recognizing the potential negative effects of the loss of the country's most skilled teachers, the Government plans to upgrade the skills of math and science teachers remaining in the country through in-service training and mentoring. However, this may increase the marketability of these teachers for overseas jobs and thus contribute as much to the outflow as to the quality of Philippine education.

Comment: Remittances as an Engine of Growth

¶12. In 2006, foreign remittances are expected to exceed 10% of the GDP of the Philippines for the first time. Thus it is no surprise that the Government encourages Filipinos to work abroad and remit their earnings despite the labor shortages affecting some sectors. The steady flow of remittances improves the country's balance of payments and international currency reserves and strengthens the peso. Overseas work also mitigates the effects of one of the highest population growth rates (2%) in Southeast Asia. With so many working overseas, there is less pressure to invest in infrastructure and services in order to keep up with the growing population. Yet the continuing departure of experienced

MANILA 00000193 003 OF 003

professionals and instructors places many sectors at risk. Basic education, particularly in math, science, and English, needs additional investment to increase the number of qualified workers and instructors in sectors at risk for brain drain and labor shortages. Thus far, the GRP has not made the necessary investment in education to allow the country to benefit fully from its otherwise excellent workforce.

KENNEY